

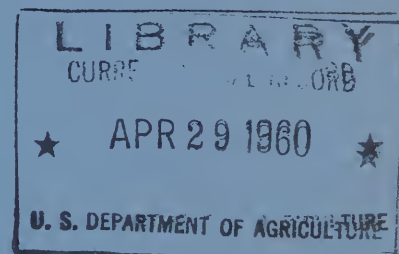
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FARMER COOPERATIVES FOR THE SIXTIES



- Highlights
- of the
- 22nd Annual Workshop
- of the
- Farmer Cooperative Service
- December 14-16, 1959



U. S. Department of Agriculture

FARMER COOPERATIVE SERVICE

Washington 25, D. C.

FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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Highlights of the

22nd ANNUAL WORKSHOP OF THE FARMER COOPERATIVE SERVICE

INTRODUCTION

This is a report of the 22nd Annual Workshop of the Farmer Cooperative Service, U. S. Department of Agriculture, held at Washington, D. C., December 14-16, 1959. The workshop's theme was "Farm Cooperatives for the Sixties."

Members of the Program Committee for this Workshop were:

Homer J. Preston, Fruit and Vegetable Branch, Chairman
Robert J. Byrne, Transportation Branch
Arno J. Hansas, Farm Supplies Branch
Helim H. Hulbert, Business Administration Branch
Stanley F. Krause, Dairy Branch
Oscar R. LeBeau, Membership Relations Branch
Elmer J. Perdue, Cotton and Oilseed Branch
Job K. Savage, Special Crops Branch
John J. Scanlan, Poultry Branch
Ira M. Stevens, Livestock and Wool Branch
Paul C. Wilkins, Frozen Food Locker Branch
Martin A. Abrahamsen, Purchasing Division (Ex Officio)

This publication presents highlights of the workshop, rather than verbatim reports of the talks. Views presented are those of the participants and do not necessarily reflect official views of the Farmer Cooperative Service on the many topics discussed. While prepared primarily as a work improvement tool for staff members of the Service, a limited number of copies are available to other persons having an interest in this area.

The report was prepared by the Highlights Committee from material submitted by speakers and from notes made during the workshop.

Members of the Highlights Committee were:

Clyde B. Markeson, Fruit and Vegetable Branch, Chairman
Theodore R. Eichers, Farm Supplies Branch
William C. Bowser, Jr., Transportation Branch

SESSION I

Monday Morning, December 14, 1959
Chairman: Joseph G. Knapp

WORKSHOP OBJECTIVES

***** Joseph G. Knapp

How to help farmer cooperatives to operate effectively in terms of the economic and social framework of the next decade is the major theme of this 22nd Annual Workshop.

We will focus attention on ways of building farmer cooperatives best suited to today's agricultural and industrial needs.

We will evaluate the role of cooperatives in the Rural Development Program; the research, educational, advisory, financial, and leadership needs for farmer-owned organizations; the legal developments affecting cooperatives; and the techniques necessary for increasing the size and strength of cooperatives.

Each workshop is an adventure in that each differs from the previous one in emphasis. But they all have one thing in common. They assist us in more clearly formulating our objectives and provide us with a tool for evaluating our work.

Our program committee, under the chairmanship of Homer J. Preston, has arranged a fine program in which we, our colleagues in the Department, and representatives of cooperatives and colleges can participate.

We are fortunate and honored to have True D. Morse, Under Secretary, United States Department of Agriculture, as our first speaker.

RURAL DEVELOPMENT AND AGRICULTURAL COOPERATIVES

***** True D. Morse

The Rural Development Program, designed primarily for underemployed families on small farms and to aid all low income rural people, shows how rural families and entire areas can make more rapid progress in solving their social and economic problems.

Background. - Forty-four percent of our farms, those constituting the commercial farm class, produce 91 percent of all farm products marketed. The other 56 percent of the farms produce only 9 percent of marketed farm products. This latter group consists of rural families who, in general, have insufficient resources to earn more than a subsistence or comparatively low standard of living. Price support programs have not solved and cannot solve the economic problems of these farmers. Thus a different approach is called for with this latter group than for the highly commercialized farms. The Rural Development Program was designed with this difference in mind.

Program Objectives. - The Rural Development Program has three major objectives (1) To help farm families having the desire to stay in farming to obtain the necessary tools, land, and skill that will permit them to farm successfully; (2) to provide improved opportunities for off-farm employment; and (3) to help all people in these areas acquire adequate training and improved health.

Not a Government Program. - Local leaders in agriculture, education, business, banking, civic groups, and cooperatives are at the core of the Rural Development Program. The success of the program depends on the willingness of local leaders in local areas to contribute their time and other resources to the work. These leaders assume the responsibility for reviewing the present economic and social situation, major problems and long-range trends, the potentials of a county-wide resource program, and the problems of organizing and maintaining a program. Federal, State, and local governments and their personnel cooperate with and support the work of local leaders and their committees by supplying technical aid, credit and other assistance.

Continued Expansion. - The program was started on a "pilot" basis in 1955-56. At that time, about 50 counties were designated as study areas. Two years later the Rural Development Program made the transition from a pilot stage to a national basis. Thirty States representing 200 counties are now included in areas designated by committees for special emphasis and assistance.

Role of Cooperatives. - Cooperatives are producing tangible results in providing marketing, purchasing, and other services to small farmers. For example, peach growers' marketing cooperatives have been organized in Chilton County, Ala., and in Meriweather County, Ga. In Amite County, Miss., farmers formed a service cooperative. Report after report shows how farmer cooperatives are helping to realize the objectives of rural development.

New Rural America Developing. - More and more people living on farms are commuting to factories, offices, and other employment. The trend is growing because people want less congested living and fewer hours struggling through traffic to work.

This development is in keeping with national policy. In 1956 Congress amended the Defense Production Act to encourage geographical dispersion

of the industrial facilities of the United States in the interest of national defense.

These are some of the characteristics of the new rural America:

"Mixed-income communities" are emerging.

Farms are being made more productive.

Agricultural processing and marketing facilities are being improved.

Forest and farm woodlands are being developed.

Clinics and health facilities are being constructed.

Education beyond high school is being emphasized.

These developments are bringing benefits and income to rural people who need it most.

RESPONSIBILITIES OF FARM LEADERSHIP

***** Oris V. Wells

There are four types of responsibilities that most people who consider themselves as agricultural leaders must face up to. These are (1) analysis, (2) interpretation, (3) administration, and (4) self-discipline.

Analysis. - As conditions develop which are displeasing to any group of farmers, they get together in the best town meeting fashion, discuss their problem and attempt to arrive at a series of alternative solutions. It is the primary responsibility of farm leadership in this stage of decision-making to assist in determining whether the problem is real or fancied, to estimate its limits, and to decide which of the alternative solutions is most workable.

Interpretation. - After the problem has been analyzed and a likely approach decided upon, it is the responsibility of farm leadership to interpret it to the people who are in a position to do something about it. This should be done not only from the specific point of view but also in light of how it affects the public. Farm leaders today have a responsibility for reestablishing a better image of the American farmer and his problems in the public mind than exists at the present time.

Administration. - The implementation and administration of the solution require a great deal of organizational skill on the part of farm leaders, ample experience, adequate background, and, in some cases, considerable finances.

Self-discipline. - Leadership must be responsible. In many cases this means saying "No" or counseling caution where the opposite course would be more popular. On occasion, it may mean just the opposite. This also includes the need for developing and diffusing leadership material. Farm leaders must assume the responsibility for training young leaders to take over or supplement top management. Call it a form of "self-cannibalism," if you please, but there must be younger men who are able and willing to take over.

Farm leadership must also be diffused geographically. Effective farm pressure groups need not only well-staffed central offices and legislative spokesmen making straightforward statements but must also have effective, articulate working units at the State and local levels.

We in this country enjoy organizing. For example, I can't think of a single agricultural commodity, with the possible exception of dates, where there is only one interested farmer or farm marketing organization. A most difficult problem in such an environment is to work out arrangements satisfactory to all of the leaders concerned.

Agricultural leaders should look at long-run as well as short-run interests; consider group interests rather than those of the individual; the interests of the public generally as well as those of the special group. All this requires a great deal of self-discipline.

FUTURE NEEDS OF COOPERATIVES FOR:

Research

***** M. E. John

The future research needs of cooperatives can be discussed from two viewpoints: the economic and the sociological.

In the economic sense, a cooperative as a firm seeks to organize and allocate resources with the objective of maximizing returns or, conversely, minimizing costs to members. But changes in purchasing and marketing methods, procurement and marketing channels, and in organizational structure affect the ability of farmer cooperatives to achieve an optimum operating position.

Research that will help cooperatives to adjust to these changes includes operating efficiency studies, an analysis of the ways in which diversification of operations can enhance the size and strength of cooperatives, an evaluation of plant location in relation to major markets or centers of distribution, and an appraisal of the ways in which cooperatives can maintain equity in the treatment of members.

These are a few of the research problems demanding attention from an economic point of view.

From a sociological viewpoint, a cooperative seeks to maximize the productivity of labor by combining this input factor with machines, materials, facilities, and capital in the right proportion. If labor is to be productive and satisfied these criteria must be met: (1) Jobs must be developed to insure the flow of work; (2) jobs must be described so that a worker can see the relationship between his work and others dependent upon his performance; (3) jobs must be allocated in relation to logical breaking points in the production process; (4) an individual must see that he is making a contribution to the firm's output; and (5) a worker must receive fair compensation for his efforts.

Marketing, supply, and service cooperatives need more research on the application of the above guidelines to their specific operations if they are to most effectively serve members' needs and personnel requirements.

Education

***** Robert S. Boal

There are five areas in which educational assistance to cooperatives can and should be emphasized in the near future.

1. Economic Integration. - While cooperatives are by nature integrators, full development of opportunities in this area are slow. The reluctance of farmers to move beyond the farm fence is paralleled by the fact that some cooperatives are reluctant to move beyond the first steps in marketing and procurement. But we are rapidly shifting from a time of opportunity to one of necessity. Our work with marketing and supply cooperatives includes suggestions for providing additional services and the greater use of contracts.
2. Mergers. - Merging, not only of whole firms but of limited services and partial processes, is an area where more education is needed. There is need to carry on research to determine economies which could come from pooling advertising, promotional and merchandising efforts; in eliminating duplicate inventories, field service men and deliveries. The firms involved should be taught to carry on such research jointly as a prelude to merger.
3. Management Education. - Improved management skill is required to maximize efficiency of cooperative firms. Many cooperatives are reaching out for help in this area and some land-grant colleges are responding.

4. Legal Principles. - We have a responsibility for explaining the legal principles under which farmer cooperatives are chartered. We also need to examine these laws, and with our cooperative leaders, set the wheels in motion to modify any unreasonably restrictive clauses and phrases.

There is also the need for education in regard to the use of contracts between cooperatives and other firms, cooperatives and their members, cooperatives and their officers. To accomplish this, teamwork between agricultural leaders and agricultural colleges, law colleges and the bar association will be needed.

Many state cooperative acts provide that no holder of common stock shall be entitled to more than one vote regardless of patronage. Would it not be well to consider a vote related to patronage?

5. Cooperatives and Other Businesses. - Over the years, less time is available for conducting the affairs of the cooperative on a strictly "democratic" basis and cooperatives are becoming more like other businesses. Our educational efforts should help cooperatives gain more general acceptance in the over-all business community.

Advisory Assistance

***** Patrick B. Healy

Advisory assistance to cooperatives is a necessity and cost-ratio studies can be used as a starting point in correcting some basic inefficiencies.

From experience, we have learned that many dairy cooperatives have fallen behind in maintaining adequate accounting systems and records. They have no clear cut idea of how their operations measure up to those of comparable associations -- to tell them what is par.

In view of this, National Milk Producers Federation developed a cost-ratio study which permits affiliated associations to compare their operations with each other. The project has been in effect two years.

Data used in the analysis are obtained by questionnaires designed to cover seven types of plants. These include (1) milk delivery, (2) milk distribution, (3) multi-product, (4) powdered milk products, (5) butter manufacturing, (6) cheese manufacturing, and (7) bargaining plants.

Data for each type of plant are then summarized, analyzed and presented to management.

We have found that cost-ratio studies serve as a useful tool in providing advisory service to our own associations. But, before managers of dairy cooperatives can make comparisons on a nation wide basis, a

system of uniform accounting must be formulated and implemented.

Farmer Cooperative Service has already developed a uniform accounting system for frozen food locker plants. And they can make a real contribution in the area of advisory service by developing a system applicable to dairy cooperatives.

SESSION II

Monday Afternoon, December 14, 1959

Chairman: Kelsey B. Gardner

ECONOMIC NATURE OF A COOPERATIVE IN RELATION TO:

The Family Farm, the Big Cooperative and the Anti-trust Principle

***** Edwin G. Nourse

Prior to 1920, cooperatives for the most part existed as isolated and small economic units. The sharp drop in farm prices following World War 1, however, gave a new impetus to their development. In an attempt to obtain better prices for the products of their members, some cooperatives attempted to gain control over supply. But they soon learned that the needs of members were best served by competing for the consumer's dollar through increased business efficiency, providing quality products and developing new markets.

Today, cooperatives are in a new phase of adjusting to an economy characterized by big business, big labor and big government.

Section six of the Clayton Act was an attempt to help two segments of our free enterprise system, farmers and labor, adjust to an economy of bigness.

Congress exempted various agricultural activities from the full scope of the anti-trust laws for the purpose of (1) preserving the family farm, (2) assuring a year round supply of agricultural commodities, and (3) offsetting the weakness of our farmers faced with greater bargaining power in the market.

With respect to labor, this section declares that "the labor of a human being is not a commodity or article of commerce." And recently, Congress declared that it is the policy of the United States to encourage collective bargaining and to permit full freedom of self-organization among workers.

Now we are engaged in a power race. For example, labor has utilized strike pools to assist striking unions. This permits labor to avoid adjusting to the free enterprise system. As a countervailing measure to labor strikes, airlines have employed profit-sharing plans whereby additional profits arising to competing airlines during a strike against one company are shared with the company against which the strike was called. Such practices can lead to serious deadlocks as exemplified by the steel strike.

Agriculture, which is trying to preserve the family farm, does not want to contribute to this power race. The free enterprise system should have a market adjustment philosophy rather than a power philosophy. Farmer cooperatives should not endeavor, through government action, to outdo industry and labor.

Farmers' organizations must meet the discipline of competition and not become involved in deadlocks which require forced arbitration.

Farmers must decide what kind and size of organizations they need for maximum efficiency and the practices they must use to compete successfully and equitably in an economy of big units and a race for more and more bigness. When the Supreme Court hands down its ruling in the pending anti-trust suit against the Maryland and Virginia Milk Producers Association, the legal rights and limitations of cooperatives will be marked out more clearly than they have ever been heretofore.

Within the broad boundaries thus laid out, cases will continue to arise, in which the courts will have to apply broad principles to particular states of fact. Since competition and restraint of trade are economic concepts of great technical complexity--not matters of simple judicial determination--judges should seek and market economists be prepared to give expert testimony of high competence and undoubted objectivity for the guidance of the courts.

The Market Structure

***** Job K. Savage

A cooperative is a distinct form of business within our free enterprise system. The most distinctive feature of a cooperative is its unique approach to the age-old economic problem of achieving an equitable distribution of wealth. Its approach is the antithesis of the "mechanistic" approach so long advocated by the "classical school" of economic theory.

One proof of a cooperative's uniqueness lies in the fact that it has three interrelated natures -- social, legal, and economic. The social nature is an addition that is not generally found in other forms of corporate enterprises. Its importance is best appreciated when examined in connection with the three major principles of cooperation -- SERVICE AT COST, DEMOCRATIC CONTROL, and LIMITED RETURNS ON EQUITY CAPITAL. These three principles are additional proof of a cooperative's distinctive approach to the distribution of wealth.

A concept prevalent among some theorists is that a cooperative is not a firm in its self; that is, it does not have the authority to make binding decisions. This concept recognizes a cooperative as a joint plant composed of members and the cooperative institution as a profit

maximizing firm. As such, its operations can then be explained by means of the classical economic theory. This denies much that is unique and different in the cooperative. It fails to take account of the inter-relations among the three natures of a cooperative -- social, legal, and economic.

Another unique feature of the cooperative is that it is organized for service to members, rather than profits, per se. This distinguishes its economic decisions from the non-cooperative enterprise but not its plant and physical operations.

In the exercise of its objectives, a cooperative should be aggressive in its efforts to increase the sum total of economic returns and in so doing it will often exert an economic effect in a market in excess of its share of that market.

Through a cooperative, farmers can horizontally integrate their resources so as to provide themselves with needed marketing services at lower costs and with increased economic (bargaining) power. Horizontal integration of farmers has to occur before they can vertically integrate their production and marketing operations.

A better understanding of the economic nature of a cooperative is needed in order to solve some of the major problems they face. Some of these are concerned with member relations, financing, acquisition of economic power, and the equitable distribution of savings to individual patrons and members.

Also, more appreciation of the nature of cooperatives is needed in order that they may play their proper role within the market structure. This structure should be discussed in terms of two structures: the "administered" characterized by a relatively high degree of Government intercession on behalf of farmers; and the "non-administered" with less Government intercession. Cooperatives are operating effectively in the two structures but their effect on the distribution of economic wealth is greatest at the present time in the "non-administered" structure.

Farm Policy

***** Bushrod Allin

The very existence of a cooperative is prima facie evidence that collective action is a supplement and complement to individual action.

Cooperatives have as their economic objectives the providing of services at cost, increasing returns to members, and improving their bargaining position in the selling of farm products.

It is my predilection that the bargaining power of farmers should be handled as much as possible by their own cooperative organizations. But it must be recognized that if cooperatives are to bargain most effectively, they must reflect changing market requirements back to growers so as to better balance supplies with demand.

Farm programs and cooperatives can work hand-in-hand in keeping the supply of products in line with market requirements. The utilization of market orders and agreements by cooperatives is one example of how Federal farm policy can help in this respect.

And cooperative leaders can play an important role in better serving the needs of the market by assuming more and more of the responsibility of formulating and administering policies seeking this end.

BOARD OF DIRECTOR'S CHANGED REQUIREMENTS FOR MANAGEMENT CONTROLS

***** Louis Zahradka

Until about ten years ago, managers generally assumed the initiative for guiding the activities of cooperatives. But today, board of director's are often the pioneering and motivating force in guiding cooperative operations. For this reason, the election of a board should be a most important event. Yet, it is often the most neglected.

If the best qualified personnel are to be elected, there must be a slate of at least eight candidates for every office, a secret ballot used, and membership informed as to how to elect a director and what qualities a director should have. In other words, the election of a board should not merely be an approval of a nominating committee's selection; it should permit members to exercise their democratic rights.

Cooperative managers can become more progressive (1) by instituting policy and bringing needed changes to the attention of directors, (2) by teaching principles of cooperation, accounting, marketing, and business to board members and to membership, and (3) through maintaining personal contacts with directors.

These are some of the ways in which present day cooperative management can become more effective.

SESSION III

Tuesday Morning, December 15, 1959
Chairman: J. Kenneth Samuels

METHODS FOR INCREASING SIZE AND STRENGTH OF COOPERATIVES

Through Improved Membership Education

***** Irwin W. Rust

Experience has taught that the informed cooperative member is the loyal member. And loyal members in turn are the foundation of strong successful cooperatives.

While the opportunity for communication between the cooperatives and their members has been decreasing in recent years the demands for the members' time and interest from other segments of the economy has been increasing.

These changes make effective member education more difficult and at the same time more necessary.

The three most common methods of informing patrons about the cooperative are by (1) meetings which include annual member meetings, local or district member meetings, and board meetings, (2) personal contacts which are a particularly effective means of educating members particularly if there is conscious planning to that end, and (3) printed materials and audio visual aids which are also helpful in educating members. The advantage of printed material is that it can be studied at leisure. A disadvantage might be that it can be easily discarded.

Given so many alternative member education techniques, the cooperative education program must devote most of its attention and funds to those methods which would be most effective.

In a 1950 survey by Farmer Cooperative Service on the effectiveness of seven member education devices, managers and members did not agree. While managers considered annual meetings as the most effective educational device members rated this fifth. Members rated the regular cooperative publication as the best member education device while managers agreed on the importance of personal contacts and each rated them second.

Thus the most effective channels for communicating with members are (1) printed material such as a monthly magazine and (2) personal contacts.

Improving methods of cooperative membership education call for (1) knowledge of what methods are most effective in reaching members and capturing their attention, and (2) careful conscious planning by management.

Through Diversification of Activities

***** John M. Bailey

Diversification can increase the size and strength of cooperative operations by (1) reducing unit costs, (2) strengthening management, (3) spreading risks, (4) increasing advertising effectiveness, (5) providing a basis for vertical integration, (6) aiding effective public relations, (7) increasing market power, and (8) fostering specialization.

There are at least four areas of cooperative operations in which diversification is possible.

First, existing cooperatives can perform additional services. These services should be related to, and fit in with, the association's present operations. Supply cooperatives, for example, have reached their present state of diversification through this technique.

Second, farm marketing and supply cooperatives can undertake joint programs with other associations in providing old or new services. This technique provides diversification within the individual participating organizations.

Third, marketing, supply, and service functions can be combined into one organization through merger, consolidation, or by forming a new organization. This method is perhaps the most effective way in which a cooperative can achieve the full benefits of diversification.

Fourth, cooperatives can provide diversification through the centralization of activities. For example, an association may have a centralized accounting department operated for several divisions.

In deciding whether to diversify, cooperative management must consider its effect on the existing operating framework, how it is to be implemented, costs, margins, and financial requirements.

Through Integration

***** Henry W. Bradford

Five methods of increasing size and strength of cooperatives through integration are: (1) expansion of individual associations, (2) federating,

(3) merging, consolidating, and acquiring, (4) investing in other firms, and (5) contracting.

Cooperatives have used all five methods to strengthen their position. Only two methods, however, have been used extensively -- expansion of individual associations and federating.

Calcot, Ltd., Bakersfield, Calif., is an example of an individual association's expanding by both horizontal and vertical integration. In a 10-year period -- from 1950-59 -- it increased its sales from \$26 million to \$121 million. This represents an increase of 365 percent. It did this by buying several cotton compress companies, building cotton warehouses, organizing a credit corporation, setting up a transportation corporation, intensifying its cotton marketing in California, and expanding into Arizona.

By 1957-58 cooperatives had formed 255 federations in the United States. Some of America's largest businesses are now federations of cooperatives.

Probably more large-scale integration and unification efforts have taken place among farm supply cooperatives than among marketing associations. In recent years, however, both marketing and supply cooperatives have exerted concerted efforts toward achieving unified and effective marketing programs.

Cooperatives are making some progress in the field of mergers and acquisitions as illustrated by the recent acquisition of six New England egg marketing cooperatives by Eastern States Farmers' Exchange, Inc., West Springfield, Mass. This involved more associations than any other cooperative merger or acquisition in all history.

Intensified effort by cooperatives to strengthen or even to maintain position is more important now than ever before. Chain stores, the major merchandisers of farm products, are expanding much faster than farmer cooperatives. During the 7-year period 1951-57, chain stores' sales increased 62 percent. Cooperatives expanded their sales only 27 percent during the same period. The chain stores' growth was 2 1/4 times as fast as that of the cooperatives'.

Cooperatives, in total, have large amounts of capital and a strong foundation. Their problem of increasing size and strength appears one of achieving proper unification.

COOPERATIVES' CONTRIBUTION TO PRICING

Dairy

***** George Tucker

Dairy cooperatives have contributed to improved pricing methods for dairy products.

Most dairy marketing cooperatives were organized to overcome poor marketing conditions. The price contributions of operating cooperatives have been largely in the field of manufactured dairy products. Most of these contributions have resulted from increased efficiency all along the marketing channels and improvement in quality.

Bargaining cooperatives have contributed more to pricing in the marketing of fluid milk than in marketing of manufactured milk. Much of the success of these cooperatives is due to their developing price stability and market security through pricing milk according to use, and through pooling systems which divide net returns to producer members on an equitable basis. They have also contributed to pricing through the development of physical control over the movement of milk so as to maximize returns to producers.

Although cooperatives have made many contributions to milk pricing, it has been necessary for fluid milk cooperatives to seek government aid in carrying out their price stability programs. The big contribution of the Federal order program has been in providing market stability through classified pricing and systems of pooling which eliminated destructive competition at the producer level.

In some areas destructive competition between cooperatives has injured milk prices. Present government regulations will not correct many of these negative price contributions of cooperatives. They must be corrected by the cooperatives themselves. This will require pulling cooperatives together in an organization just as farmers were originally brought together.

In summary, cooperatives have contributed to pricing by developing marketing systems and providing leadership in efficiency, quality of product and service. They have contributed to market stability with a voice in pricing their products so as to get fair returns for members. And if cooperatives are to serve the interest of dairy producers in total, rather than dissipate many of their gains through inter-cooperative struggle, they must pull together.

Fruits and Vegetables

***** Clyde B. Markeson

Over the years the pricing problem of fruit and vegetable cooperatives, like other first handlers of agricultural products, has been basically one of obtaining a flow of produce meeting market requirements. But the needs of the market are changing and if fruit and vegetable cooperatives are to contribute to pricing in the sixties, they must recognize these changes and adjust their operating practices accordingly.

One of the most striking changes over the years in the system of food marketing has been the shift toward large-scale purchasing and mass distribution at the retail level. While the total volume of food business grew from \$10 billion in 1939 to \$46.5 billion in 1957, the total number of retail stores declined from 561,000 to 400,000. On the other hand, the number of supermarkets nearly doubled from 1952 to 1957.

Accompanying the growth in the size of the firm in the food business have come changes in buying practices. The trend is toward direct buying and closer coordination with suppliers. Large retail buyers are seeking large and stable supplies of a product of uniform quality compatible to mass, self-service merchandising techniques.

Basically, then, fruit and vegetable cooperatives must gear themselves to the concentration of bargaining power at the retail level.

Some people believe that only large cooperatives having control over all or a substantial portion of the supply can contribute to pricing in this environment. However, bargaining power exists wherever competition is present and, since ours is not an economy of completely administered prices and production, the ability of both small and large cooperatives to contribute to pricing exists in many forms.

Fruit and vegetable cooperatives can bargain most effectively if, among other things, they (1) place greater emphasis upon quality control; (2) rely more heavily upon the use of grower-member contracts; (3) provide more services normally performed in the terminal markets; (4) handle both fresh and processed products; (5) place greater emphasis upon the use of pools; (6) have as their ultimate objective the direct selling of produce at the shipping point, rather than the terminal market, level; and (7) utilize market orders and agreements more intensively.

In summary, fruit and vegetable cooperatives, as a group, can make their greatest contribution to pricing in the sixties by enlarging the area within which competitive price making forces operate. The extent to which they actually contribute will depend upon their ability to provide a dependable and continuous supply of a product **requiring** a minimum of selling effort by mass distribution.

Farm Supplies

***** J. Warren Mather

The contribution of supply cooperatives to pricing can be examined from two viewpoints -- pricing supplies to patrons and pricing supplies to the cooperative.

Supply cooperatives have made several important contributions in both fields.

They have established reasonable prices based on the cost of doing business. In some cases, this practice has caused the competitors of supply cooperatives to reduce their handling margins. And, after being in operation for several years, the successful associations serve as "regulators" or "stabilizers" of prices in the community.

Supply cooperatives have served as pace-setters in pricing by taking the lead in giving discounts for off-season purchases or adjusting prices to special circumstances. For example, prices have been reduced to help farmers adversely affected by a cost-price squeeze, drought or flood.

These associations have made a contribution to pricing by reflecting the quality of the items in open formulas for feed and fertilizer. This has led farmers to examine the relative merits of comparable items.

The pricing policies of many farm supply cooperatives recognize differences in the cost of serving small and large farmers. This recognition has led to discounts for the purchasing of large quantities.

At the same time, through pooled purchasing power, wholesale and manufacturing cooperatives have obtained price advantages for their affiliate members.

Leadership, adopting improved policies and techniques, and operating at cost have enabled members to benefit from the pricing activities of their supply cooperatives and get lower initial costs, improved quality, and equitable treatment.

SESSION IV

Tuesday Afternoon, December 15, 1959

Chairman: Kelsey B. Gardner

ROLE OF AGRICULTURAL MARKETING SERVICE IN MARKETING RESEARCH

***** Harry Trelogan

One role of AMS is to do some significant work in every substantial phase of agricultural marketing. This objective permits us to be at least conversant with the problems, to have intelligent answers to policy and legislative questions, to stimulate work on the part of others, and to show by example how useful research can be done.

Broad coverage involves a major job of rationing and requires that our work be spread rather thinly because our research resources represent a ratio of 0.01 percent compared with the gross business conducted in the universe of domestic agricultural marketing. For this reason, we are sometimes criticized for dealing with local rather than national problems or with only small segments of problems. However, we like to think that our work is national in scope even when dealing with small samples.

Research we like to identify with our role is concerned with (1) efficiency related to cost, product quality, and market functions and services; (2) helping farmers, buyers, sellers, and consumers to make more intelligent market decisions; (3) calling attention to changes taking place in our economy; and (4) helping public agencies provide improved marketing services.

We recognize in our research work that:

1. Profits are necessary to keep businesses operating.
2. Profits result only if returns exceed cost.
3. In the long run prices cannot decline unless costs are reduced.

Another role of AMS research is to encourage competition in marketing. This assures that cost benefits will be shared if and when they occur.

AMS also has a stimulative role in demonstrating how research can contribute to a business operation.

AMS does not have the role of soliciting industry funds for research or of being the crusader for private research. We carry out this role largely by demonstration and example.

In the final analysis, the extent to which we fulfill our role depends upon the value judgment of the people we serve and of fellow research workers.

RESEARCH NEEDS OF COOPERATIVES

***** Homer L. Brinkley

Research is a process of learning how to adjust to changing economic conditions -- what to do or what not to do under different conditions.

Organized farmer groups are becoming increasingly concerned with some of the present trends in agricultural legislation and research programming. Some areas of research have been neglected or have not progressed as rapidly as they should. Other areas need to be upgraded.

I am glad to report that the National Council of Farmer Cooperatives has joined other farm organizations in sponsoring legislation which, we hope, will give us the proper balance in research that is necessary to meet changing needs of present day agriculture. This legislation has passed the House and is now before the Senate.

We hope we can sell the concept of modern agricultural research embodied in this legislation. We must recognize, however, that research in marketing and economics is more difficult to advance than in the area of production. The Farmer Cooperative Service has greatly aided in breaking some of the log jams that exist in this respect.

Farmers and their marketing organizations must soon decide whether to move forward in joint partnership in processing, marketing and distribution of their products, or accept more and more government aid with its inevitable controls, or rely on non-agricultural interests for financing, direction and probable eventual control of their operations.

Farmer cooperatives can set the pace by helping farmers maximize returns through their self-help organizations. Legislation can be of assistance to the extent that it helps farmers to operate and control their own facilities and operations.

Farmers should be looking to their many allies -- the land-grant colleges, the American Institute of Cooperation, national and State Cooperative Councils as well as the Department of Agriculture -- for help in achieving proper objectives.

The Farmer Cooperative Service should be developed into a nationwide, research complex. I believe FCS has the personnel and know-how to act as a catalyst for expanding cooperative philosophy and methods throughout the country. We must find ways to build sounder financial structures, improve our management services, and better our membership

relations if we are going to continue progressing in the years ahead.

HOW WE ARE MEETING RESEARCH NEEDS

***** W. Gordon Leith

The subject for discussion "How are We Meeting Research Needs" is somewhat presumptuous in that it pre-supposes we are meeting our research needs. The title should be "How We Are Attempting to Meet Some of the Research Needs of Consumers Cooperative Association."

CCA is presently spending one-tenth of one percent of sales on research. Total research expenditures in recent years were about \$104,000 in 1958 and \$132,000 in 1959. The budget for 1960 calls for \$192,500. Approximately 80 percent of these expenditures are for technical research purposes. Thus, the budget for the Economic Research Division, which I head, will be approximately \$37,000 in 1960.

The purpose of the Economic Research Division is to provide staff personnel with information that will help them in setting policy guides and making decisions. This information is obtained from available published sources or is developed by research studies as needed.

We hear a lot about "corporate image." Although limited by funds -- our staff numbers about four to five people, including two professionals -- I believe we have in CCA an economic research image of rendering good service in a prompt and effective manner. We are also broad-minded and objective. This leads us into many fields.

Our present work can be broken down into eight major fields of study. These are (1) general economic forecast, (2) analyses and interpretation of trends in agriculture -- mainly integration, (3) facilities and product lines, (4) sales and distribution analyses, (5) marketing intelligence, (6) patron relations, (7) outside studies, and (8) special requests.

While these areas are fairly comprehensive, there are still some things that we should be doing. We need more long range planning, especially along organizational lines and in the field of capital accumulation and mergers. We need to broaden our endeavors in economic and market analyses. Other areas we can profitably explore are operations research, product development and process development.

The work of Farmer Cooperative Service is very useful to our organization and supplements our own studies. We intend to make even greater use of your materials and staff in the 1960's.

***** Dale E. Butz

The research staff of Illinois Farm Supply Company consists of one technical research director, one director of economic research, three marketing research analysts, and two to three secretaries and clerks.

Our research is divided into two general categories: (1) Technical and (2) economic and marketing.

Technical research includes maintaining a library as a source of research data, maintaining a close relationship with industry, familiarizing ourselves with research carried on by regional cooperatives and research agencies, supervising research grants made to universities, helping maintain quality control, and conducting technical studies of interest to the operation divisions.

Economic and marketing research includes an analysis of farm panel data, market share and potential studies, making grants to universities, supervising outside research studies and the activities of research consultants, and conducting economic studies of interest and value to management in planning and operating the business.

Even though research functions are centralized, we encourage operating divisions to perform research. We hope they will ask the formal research group for assistance.

Research programs in the future will have to step lively to keep ahead of and be of service to capable cooperative management. This will require a more intensive analysis of problems; closer working relationships with universities, FCS, and other agencies of the U.S.D.A.; and demonstrating to cooperative management personnel the value of research.

***** Claud L. Scroggs

Southern States Cooperative's research program can be divided into four categories.

Internal or Operational Research. - This includes economic and business analysis of management services provided for local cooperatives and private agencies. These continuous studies provide our decision-makers with information essential in formulating and implementing systems and controls and in promoting good membership relations.

Evaluation Research. - This aspect of our research program is primarily related to improvement of quality and nutritional value of our manufactured feeds. In the poultry category, three evaluation farms -- one each for broilers, chicken layers, and turkeys -- are operated jointly by Southern States and other regional purchasing cooperatives.

Another jointly operated evaluation farm is concerned with nutritional problems and management practices for beef cattle and hogs.

Cooperation with Consulting Firms. - Services of various consulting firms have been used in connection with plant location studies, long range financial needs, personnel structure analyses, and studies regarding labor relations, including pay scales, fringe benefits and so forth.

Economic Research. - The department of economic research is only one year old and began with my employment. At the present time, our staff consists of myself, a statistical analyst, and a secretary. We also have use of IBM equipment and utilize the services of several other departments. As Director of Economic Research, I am responsible to the general manager. To assist in direction and planning, I have an economic research committee composed largely of directors of the various departments of SSC.

At the initial meeting of the Research Committee, certain areas of research were selected for emphasis. These include short and long run trends in agriculture, commodity potentials by areas served (seed, feed, fertilizer, petroleum and farm supplies), the type and nature of SSC's distribution system needed to meet future member needs, and marketing information and programs.

This is a big order and cannot be done quickly. However, I'd like to discuss for a moment what we have accomplished during our first year. Some of the studies completed or underway are: (1) Relocation of a feed mill; (2) An over-all Egg Marketing Survey; (3) A Hatching Handbook; (4) A Marketing Guide for Grade-A Dairy Farms; and (5) An Agricultural Outlook for 1960.

Some of my other activities include writing a page entitled "Let's Look at Farm Trends" each month for SSC's house organ, advisory assistance in connection with youth relations work, and acting as liaison with land-grant colleges, Farmer Cooperative Service, and other governmental agencies.

***** J. W. Stiles

The research objectives of the Cooperative G.L.F. Exchange, Inc., are primarily two-fold: (1) Helping farmers in the Northeast to effectively compete with farmers in other areas and (2) maintaining G.L.F.'s position as a leader in serving members' needs.

We keep abreast of research carried on by colleges, industry and various agencies of government, including Farmer Cooperative Service, which helps us to evaluate the climate within which we operate.

Through contacts with farmers and farm leaders, we keep informed of changes taking place in the agriculture sector of the economy.

Through market research studies, we determine the feasibility of making additions to our supply line. We also test new ideas and products which sometimes gives G.L.F. an advantage of an early start in recommending new commodities and services.

We also encourage others to undertake research. Grants-in-aid to agricultural colleges has proven very helpful in meeting our research objectives.

G.L.F. research personnel, after evaluating economic trends, local conditions, market preference studies, and research carried on by others, make recommendations to the operating divisions in light of the findings.

This, briefly, is how G.L.F. is meeting research needs.

LEGAL DEVELOPMENTS AFFECTING COOPERATIVES

***** Raymond Mischler

The House of Representatives Committee on Ways and Means has recently released a three volume committee print entitled "Compendium of Papers on Broadening the Tax Base." One of the subjects is the taxation of cooperatives - particularly farmer cooperatives. The Committee appointed a panel of lawyers, some in private practice and others on faculties of law schools, to discuss this subject.

The papers presented run the gamut of all suggestions previously considered for taxing cooperatives, plus several which, although not new, at least represent "new frills on old dresses."

The lead off paper by F.W. Peel suggests, among other things, that (1) no tax be imposed on the receipt of patronage refunds on purchases for personal use, and (2) that farmer cooperatives be required to withhold taxes at the rate of 20 percent from patronage refunds.

W. C. Warren argues that patronage dividends represent a distribution of profits and that the exemption provisions relating to cooperatives should be repealed.

R. Magill has not changed his views. He thinks: "A cooperative should be taxable on its income, whether or not it issues to its patrons certificates evidencing net margins in some amount, such certificates being only payable in the discretion of directors at some wholly indefinite time in the future."

W. E. Rumble presents factual information concerning cooperatives, their methods of operation, their importance to the economy, and the past and present tax treatment of cooperatives and their patrons. He also considered whether Congress can, under the Constitution of the United States,

tax net margins of cooperatives which are subject to a proper prior mandatory obligation and concludes that it cannot subject such margins to an income tax.

W. E. Rumble proposed that the loophole created by the Carpenter and Long Poultry Farms cases could be closed by leaving the cooperative tax statutes alone and by adopting appropriate language to fix definitely the tax liability at the patron level for the dollar amount of allocation, provided it is made pursuant to an obligation of the cooperative and is accepted by the patron in satisfaction of that obligation.

C. E. Nieman's analysis leads him to conclude that a cooperative's operation usually results in the realization of income to someone, and that this should be reported as such by the cooperative or its patron. Whether the income produced by cooperative action accrues to the association or its patrons should be determined by the same rules which apply to other taxpayers, and with a decent regard for fundamental principles of law. If the cooperative has a contract that with its patron that makes the receipts a debt of the cooperative to the patron, then the income is clearly taxable to the patron. Otherwise it should be taxable to the cooperative as a corporate entity.

The so-called exemption available to the farmer cooperatives under section 521 and the tax treatment prescribed by section 522 are fully justified by the public interest. His principal criticism of these sections is that they do not provide enough incentive to induce more cooperatives to accept the limitations and restrictions which are conditions precedent to qualifying for such status and treatment.

***** Lyman S. Hulbert

The subject of acquisition and merger is a frequent item in the news these days and any statutes relating to acquisitions and mergers have an impact upon farmer cooperatives.

Section 7 of the Clayton Anti-trust Act of 1914 forbids a corporation from acquiring the stock of another if it results in a substantial reduction in competition. To circumvent this aspect of the Act, some companies purchased assets instead.

In 1950, the Clayton Act was broadened by an amendment which stated that the acquiring of assets, as well as stocks, of another company was illegal if it resulted in the lessening of competition.

Apparently the first application of Section 7 of the Clayton Act to agricultural cooperatives involves the acquisition of Embassy Dairy assets by the Maryland and Virginia Milk Producers Association.

Prior to acquiring Embassy's assets in 1954, Maryland and Virginia controlled 84 to 85 percent of the Washington milk supply. The acquisition increased its control to 91 or 92 percent.

Although Maryland and Virginia informed the Justice Department of its intention to buy Embassy, they made the purchase before a decision was rendered. In 1956, the Department of Justice instituted court proceedings against Maryland and Virginia and the court entered a decree ordering Maryland and Virginia to sell Embassy saying that this purchase was in violation of Section 7. Maryland and Virginia then appealed the decision to the Supreme Court where it is now pending.

I believe it would encourage cooperatives tremendously if they could acquire other corporations or their assets without violating the law. Amendments to the Capper-Volstead Act to grant cooperatives certain privileges regarding acquisitions are being proposed. This would automatically amend the Clayton Act. While cooperatives are favorable toward legislation of this nature, they are hesitant about making their wants known. Cooperative leaders need to act aggressively in this area as such as amendment would aid the expansion and growth of farmer-owned organizations.

Under the present law, managers and attorneys for cooperatives must assume that Section 7 of the Clayton Act does apply to agricultural cooperatives. The only safe way for an association to proceed is on the theory that Section 7 applies to them.

SESSION V

Wednesday Morning, December 16, 1959
Chairman: Joseph G. Knapp

HOW DEVELOPMENTS IN MARKET STRUCTURE AFFECT FARM COOPERATIVES

***** Winn Finner

Important developments taking place in the system of food distribution are likely to have a bearing upon the future development of cooperatives. The dominant change has been a concentration of mass distribution at the retail level. While total retail food store sales increased 64 percent from 1948 to 1957, the sales of chains of 11 or more stores gained 104 percent. In 1957, 823 corporate chain stores sold 42 percent of the nation's food, 80,000 affiliated independents sold 41 percent and 197,000 unaffiliated independent retailers sold 17 percent.

Accompanying the growth in the size of the firm in the food business has been an increase in the number of retail chains integrating into food processing. In 1920, five chains were processing food. By 1958, this number had increased to 62.

Size of the retailer, market power of the processor, profit incentives, legal considerations, capital requirements, and working relationships with other retailers are among the factors affecting the degree of integration.

In general, food chains integrate into industries where sellers have the greatest market power and profits tend to be highest. On the other hand, they usually buy from industries which have a large number of sellers.

A continuation of the trend toward mass distribution and integration at the retail level is likely to result in cooperatives becoming larger, providing more services, tightening membership requirements, and helping modify some State laws to permit voting on a patronage basis. And, it is also likely that bargaining cooperatives will become more important, particularly as we move away from market prices and turn to those established for specific transactions.

CREDIT NEEDS OF COOPERATIVES

***** Harold T. Mason

Cooperative Farm Credit banks and associations need and use more credit than any other group of cooperatives having a common purpose. And, this

past year, new peaks were reached in both the amounts borrowed and loaned.

During the year ending June 30, our 37 banks sold \$3.2 billion of bonds and debentures on the investment market. This financed the making of \$3.9 billion of loans. Both reflect expanding credit needs of farmer cooperatives.

The extent to which credit needs of farm supply and marketing cooperatives have increased over the years is substantial. A survey in 1936 indicated that farmer cooperatives were using approximately \$256 million of credit. A more recent sample survey by the Farmer Cooperative Service indicated that in 1954 the total amount of borrowed capital being used by farmer owned organizations had reached \$914 million.

Loans made by the banks for cooperatives also reflect the expanding credit needs of cooperatives. The total amount of loans outstanding in the banks increased 73 percent from 1954 to 1959. At the same time, the number of cooperatives obtaining credit increased only 31 percent.

The growth in volume is attributed to both financing additional cooperatives and furnishing larger amounts to those served. Grain associations represented the greatest increase in numbers financed and amount borrowed. They were followed by supply, cotton gin, and fruit and vegetable cooperatives.

We anticipate that normal growth, integration, modernization, and economies of scale will contribute to larger-sized operations. These, in turn, will increase the credit needs of cooperatives generally and demands upon the banks particularly.

Will the banks for cooperatives be able to handle these growing credit needs? We have considered the question and estimate that the total volume of loans by the banks could quadruple without impairing their capital structure. In other words, we believe the banks can handle the credit needs of farmer cooperatives in the foreseeable future.

HOW MUCH SHOULD A COOPERATIVE BORROW?

Principles and Guidelines of the Banks For Cooperatives

***** Glenn Heitz

Lending principles and guidelines to be summarized are an attempt to generalize in an area which does not readily lend itself to generalization. Exercise of judgement on an individual case basis in light of local conditions and economic trends is necessary in making and servicing loans.

To be eligible to borrow from a bank for cooperatives, an association must (1) be owned and controlled by farmers and operated for their mutual benefit; (2) be engaged in some phase of marketing farm products, providing farm supplies or furnishing farm business services; (3) do no more business with nonmembers than members; and (4) either provide for "one member one vote" or limit dividends on stock to no more than eight percent.

In making a loan, principal officers of the applicant association and the bank meet to discuss the loan application. If a cooperative is making application for the first time, it should provide organizational papers, financial and operating reports and any other data having a bearing on the loan. This information is evaluated by a business analyst of the bank and recommendations prepared for consideration by the senior officers. A committee then acts upon the loan.

Facility loans cannot exceed 60 percent of the appraised value of fixed assets mortgaged to the bank as security. Term loans (facility and operating capital) generally do not exceed members' total investment in the cooperative's basic long-term capital. Repayment is usually within 10 years for a facility loan and 5 years for an operating capital loan and is often related to dollar volume or physical units handled.

Commodity loans may not exceed 75 percent of the net market value if unhedged or 90 percent if hedged. And they usually do not exceed 90 percent of the value of firm sales to the Federal government covered by warehouse receipts. Repayment is normally made within 12 months.

Seasonal operating capital loans are made to cooperatives with records and prospects indicating such loans will be paid seasonally. Repayment is normally provided from seasonal liquidation of inventory and receivables, and by collection of sales proceeds by purchasing and marketing cooperatives, respectively.

There are many other principles and guidelines but the major consideration, from the viewpoint of banks for cooperatives, is their responsibility of financing all deserving cooperatives in the long run.

Lessons From Experience

***** Homer G. Smith

How much should a farmer cooperative borrow or, conversely, how much should a bank for cooperatives lend? To answer this question, experience has taught us that we must know a lot about the cooperative, what it expects to accomplish, and how it expects to repay each loan.

A major purpose of a commodity loan to marketing cooperatives is to enable them to make advances to farmers at harvest time for farm products,

or to purchase or process such products incident to their marketing function. Whether the commodity is staple or perishable, readily marketed or a specialty item, price supported or not, processed or unprocessed, and hedged or unhedged, -- any or all of these affect the amount that can be soundly borrowed by a cooperative or loaned by a bank.

In general, a sound marketing cooperative can borrow relatively high but widely varying percentages of the value of the merchantable products depending on the circumstances. The same general theory would be true for financing inventories of farm supply cooperatives. Commodity loans are expected to be repaid seasonally.

Operating capital loans generally are short or medium term loans. They supplement the cooperatives' own capital funds. The cooperative may be expected to repay such loans over a period of years through a capital retain or from other funds.

Facility loans are made for the purpose of financing or refinancing the acquisition of land, buildings, and plant equipment used in the business activities of the cooperative. In making loans for such purposes, the fund of knowledge among farmers, cooperatives, the banks for cooperatives, and in Farmer Cooperative Service is drawn upon.

In making loans, the "personality, character, and performance" of a cooperative as a whole comprising the general manager and his staff, the board of directors, and its members are taken into consideration.

We keep lending ratios in mind, as do all sound lenders, but these generally serve as guidelines only. Our credit decisions are based on an over-all appraisal of the situation. In other words, we must know the deal.

OPPORTUNITIES FOR COOPERATIVE DEVELOPMENT

***** J. Kenneth Stern

It appears to me it would be timely to review the opportunities in our own back yard and get our minds off the moon for a while. We send marketing experts round the world, study the problems in Timbuctoo, and frequently overlook the opportunities to improve farm income closer to home.

Yesterday you heard the research director of one regional cooperative report how helpful it was to get a report of a fact finding study from a research director of another cooperative. And why not? Why should each go through the time and expense of a similar study?

We review the trend toward fewer and more powerful buyers -- but how many meetings have we arranged between chain store buyers and producer organizations, region by region? Recently the Vermont Commissioner of Agriculture arranged a meeting between a group of hotel and restaurant buyers and producer representatives of the Northeast. The buyers were dissatisfied with U. S. No.1 potatoes and egg grades offered in the area. Specification buying is here, and cooperatives may have to do a lot more than depend on U.S. grades to satisfy specification buyers.

We have not given research in marketing farm commodities its proper place in the sun. The importance of research is so widely recognized by industry today that research, as an industry, ranks in size with the chemical, the electrical equipment, and the petroleum industries.

I know that the knowledge and information in the staff of Farmer Cooperative Service could help solve many more problems in the marketing field, if more of the leaders of our organizations would accept its recommendations.

We heard reports of one regional cooperative selling a refinery, of another considering the purchase of one. I know of another regional considering petroleum distribution in the future. Organization by organization or, in some cases, group by group, hundreds of thousands of dollars have been spent exploring the possibilities for cooperatives in the petroleum field. How often have notes been compared? Does cooperative X know what cooperative Y experienced? Will we team up or compete with each other?

State cooperative councils have never been as important as they are today. Teaming up to share experiences, compare notes, to support research at the university, to work with the extension and teaching staff at the university, to conduct training schools in which Farmer Cooperative Service, Farm Credit Administration, American Institute of Education and others are involved requires joint action on the part of all concerned.

Our big problem today is "people." You know the answer to many situations today; so do some other people. Local pride and prejudice, short range versus long range view, selfishness, and other personal reasons keep us from making the progress we should.

The Federal Extension Service is about ready to turn loose its program on long range planning, on management of firms, and on marketing activities in 4-H projects.

Let's look around our own back yard. We have the tools and the know how to make real progress, and I'm sure that Farmer Cooperative Service will help move us in the right direction.

SESSION VI

Wednesday Afternoon, December 16, 1959
Chairman: J. Kenneth Samuels

DEVELOPING ADEQUATE STATISTICS BY REGIONS, COMMODITIES AND SERVICES

***** Anne Gessner

An intensive effort is made in each annual survey to obtain data from all active associations on the survey list of Farmer Cooperative Service. Special methods have been developed for compiling estimates on business volume of nonrespondent cooperatives. Of the 9,872 associations included in the survey most recently completed, 92 percent furnished current information on their memberships and business volumes, leaving only 8 percent for which estimates were required.

To obtain more adequate data on the commodities handled by farmer cooperatives and on the services performed in their production, processing, and distribution, studies of the integrated operations of cooperatives in major commodity fields have recently been initiated in the History and Statistics Branch. Two of these integration studies have been completed. The first dealt with the integrated petroleum operations of cooperatives and the second with integrated operations of dairy cooperatives. A study of the integrated feed operations of cooperatives is just getting under way.

If the objectives of economic integration studies are to be successfully accomplished, the closest possible cooperation between the commodity branches and the History and Statistics Branch will be required. It is expected that integration studies will be conducted on a rotated basis, with a survey being made in each major commodity group possibly once every five years. This basis should provide the necessary statistical benchmarks for measuring the progress of cooperatives in major commodity fields.

THE FUTURE OF SERVICE COOPERATIVES

***** French M. Hyre

The future of farm service cooperatives is inextricably interwoven with the future of the farmers they serve. This discussion is based upon the expectation of an expanding agriculture and a gradually rising price level. An absence of these motivating forces would necessarily call for some readjustments in the outlook presented here.

If farms become larger and more highly commercialized, as is expected, the need for farm business services such as insurance, credit, irrigation, electricity and telephones will increase. Undoubtedly cooperatives and farmer-owned mutual companies will continue to supply a significant proportion of these services.

In the years ahead the number of farm mutual fire insurance companies may decrease somewhat as a result of consolidation and integration. However, the volume of insurance carried by the mutuals should increase as capital investment per farm in buildings and machinery increases.

Mutual irrigation companies are supplying about 30 percent of all irrigation water used by farmers in the Western States. We see no reason to expect any great change in this area. In the more humid areas of the Midwest, East and South there is room for considerable expansion. Supplemental irrigation in these areas has proved profitable.

With 96 percent of all farms now electrified there is no reason to expect any substantial increase in the number of rural electric cooperatives. However, the volume of business of existing cooperatives undoubtedly will increase as farmers further mechanize their operations and further substitute electric power for hand labor.

It is expected that the improving trend in rural telephones will continue since only about 64 percent of our farms now have telephone service. A substantial number of the new telephone cooperatives being formed under the REA program represent consolidations among groups of old mutual lines that needed financial assistance in rebuilding.

The new cooperative arrangement between PCA's and farm supply cooperatives under which credit is made more readily available to farmers should result in increased business for the PCA's and better service for farmers. FLBA volume is growing and no doubt will continue to do so as the need for farm credit increases. Some farm supply cooperatives have sponsored credit unions to help provide credit for members. It seems logical to expect some further development along this line.

PROGRESS AND FUTURE OF THE RURAL DEVELOPMENT PROGRAM

***** Kenneth L. Bachman

The progress of the Rural Development Program has been most gratifying. This becomes apparent as we review some of the important accomplishments.

In April, 1955, a report entitled "Development of Agriculture's Human Resources" was issued and recommendations by the President sent to Congress calling for the launching of pilot operations in not less than 50 counties during the coming fiscal year. The report emphasized

need for promoting improved farming, providing new job opportunities, training in nonfarm skills, and community initiative in underdeveloped area.

By September, 1956, 54 pilot counties had been selected as needing special emphasis in 24 States.

By September, 1959, some 200 counties in 30 States were improving both farm and industrial opportunities through the Rural Development Program. The U. S. Departments of Agriculture; Commerce; Interior; Labor; and Health, Education, and Welfare, and the Small Business Administration were among the Federal Agencies contributing to the Program. Projects had been started to improve job development and employment service. Several farmer cooperatives, packing plants, and other market outlets had been established. Educational and training programs were being stepped up. Federal-State cooperative programs were receiving special attention. And, all in all, results were increasing in the participating counties.

The future of the Rural Development Program is promising. In January, 1959, a letter was sent to all Deans of Agriculture requesting their suggestions on how the Program could be strengthened and broadened. Of the 45 replies, more than half favored setting up a staff position in the College of Agriculture to handle this work. In addition, they generally asked for more guidance from national headquarters on participation.

In October, 1959, the President formally established the Committee for Rural Development at the Under Secretary or Sub Cabinet level. The Committee represents the Departments of Agriculture; Commerce; Interior; Labor; Health, Education, and Welfare; the Small Business Administration, and the Council of Economic Advisors.

In November, 1959, a statement was approved by all Extension Directors on "Extension in Rural Development." It recommends, among other things, that the Program be expanded and that local, county, State, and Federal personnel present a United front in achieving the objectives of the Rural Development Program.

THE ROLE OF COOPERATIVES AND FCS IN THE RURAL DEVELOPMENT PROGRAM

***** Paul C. Wilkins

Farmer cooperatives are playing an increasingly important role in rural development. Several hundred cooperatives are now operating in rural development counties and new cooperatives are being organized to provide needed products and services.

In addition to the functions usually performed by marketing and farm supply cooperatives, other cooperative activities have special application

to problems in these areas. One special activity is a farm equipment rental service. Many farmers in these areas lack sufficient capital or have farms too small to justify the purchase of modern farm machinery. An equipment rental service provides the benefits of more efficient farming operations without added capital investment.

A second important activity is providing processing and marketing services for local products produced in too small a quantity to move out of the immediate area.

Another important activity is illustrated by the Georgia Cotton Producers' broiler contracts with farmers in rural development areas. Through these contracts needed capital and production know how has been brought into these areas and helped under employed rural people towards fuller employment and a higher standard of living.

The role of rural credit cooperatives is important in rural development. These cooperatives, including rural credit unions, supplement other credit sources, act to mobilize local savings, and fit in with the needs of many groups.

Farmer Cooperative Service has participated in the Rural Development Program since its inception in 1955. It has published two resource leaflets - "Co-ops Have a Place in Rural Community Development" and "Rural Credit Unions, A Place to Save and Borrow."

Areas in which FCS might make further contributions to the Rural Development Program include research and service in organization and operation of specialized cooperatives such as roadside marketing cooperatives; handicraft marketing cooperatives; forestry cooperatives, including log assembly and marketing; pulpwood marketing cooperatives; maple syrup cooperatives; rural hospital cooperatives; and cooperative health insurance programs. Other contributions might include studies of the role of multipurpose cooperatives and regional cooperatives in low-income areas.

IMPROVING COOPERATIVE OPERATIONS

Through Coordinated Transportation

***** Robert J. Byrne

Farmer cooperatives have an opportunity to reduce costs and improve service by coordinating transportation.

Coordinated transportation is illustrated by a cooperative processor hauling his canned goods to market in his own trucks and backhauling boxes, cans, sugar or other supplies used in his plant operations.

He might also backhaul processed commodities or supplies for a neighboring cooperative. Or, as another example, several cooperatives might buy trucking equipment jointly and form a cooperative trucking association to do their hauling.

Farmer cooperatives own or operate about 30,000 trucks. Many operate on a one-way haul basis. This results in wasteful transportation which is in turn costly. If the market for farm products is also the source of farm supplies, cooperatives in a given area may profitably explore the possibilities of coordinating their transportation activities with their neighbor associations.

Opportunities for reducing transportation costs have also encouraged many firms to turn to multi-plant operations. By decentralizing plants, they are able to cover a greater marketing area than was possible with a single plant operation. As a means of reducing costs and expanding market areas, cooperatives might profitably explore coordinated transportation as an alternative to multi-plant operations.

Frankly, in the field of coordinated transportation we've been "out cooperated" by private industry. Literally hundreds of cooperative shipping associations operate in cities throughout the United States. They consist of merchants in the hardware, food, textile, and other fields who join together in a type of cooperative freight forwarding association to secure the benefit of carload and truckload rates. They have discovered the possibilities for cost reduction by coordinating their transportation activities cooperatively. This is not motivated by any "love-thy-neighbor" philosophy but rather by cold, hard economic facts. But farmer cooperatives are demonstrating that they too can work together on joint transportation efforts and do so successfully.

Through Changed Methods of Operation

***** Ira M. Stevens

Progressive, cooperative leaders recognize that change can lend itself to intelligent direction. They spend considerable effort in planning programs to utilize changes that have occurred and in orienting the future direction of changes in their organizations.

Some outstanding improvements in cooperative marketing of livestock have resulted from changes in operating procedures. For example, cooperative commission firms have helped establish reasonable rates for comparable services among competing agencies.

Shipping associations have been organized in the country nearer the farmer. This practice has resulted in improved services and lowering handling margins.

Numerous feeder livestock pools have been instituted which, we feel, provide benefits to buyers and sellers alike. We are currently making a nationwide study of pooling in order to determine the merits of this operating technique.

Livestock marketing cooperatives can make additional improvements in operating procedures by: (1) More prudent plant construction, (2) installing labor saving devices, (3) increased volume and (4) operating livestock evaluation stations. Accomplishment of some of these objectives may require use of producer-member contracts, consolidation, merger, or performing additional functions.

Through Cost and Efficiency Studies

***** Elmer J. Perdue

Cost and efficiency studies carried out by Farmer Cooperative Service include case studies of individual associations and comparative studies or reports of two or more associations having similar operations. Although a case study is sometimes made of a successful association to obtain knowledge that will help less efficient associations, it may also be used to help put an unhealthy association back on its feet. A comparative report, on the other hand, provides associations having similar operations with a yardstick by which management can measure efficiency of operations. If an ounce of prevention is worth a pound of cure, we in FCS can well afford to look at the possibilities offered by comparative reports or studies.

Experience with comparative reports on operations of cooperative cottonseed oil mills points up three major problem areas: (1) Reducing data in audit reports and mill records to a comparable basis; (2) controlling or equalizing factors outside management control, and (3) relating differences in results back to factors responsible for the differences.

Audit reports and mill records of associations with similar operations may differ from each other in accounting procedure. It is necessary to carefully analyze sources of data if costs and other items are to be converted to a comparable basis.

Results obtained from audit reports and other records are influenced by factors outside management control. For example, the amount that a cottonseed mill can return to patrons depends to a great extent on the quality of seed delivered. Therefore actual results must be adjusted for differences in quality of seed crushed. Adjustments must also be made for geographical areas when comparing manufactured cottonseed product prices, electric rates, wage rates, and the like.

A comparative report in itself is usually descriptive rather than analytical in nature. It is not enough to know that differences exist but management must also know the reasons for the differences if

corrective action is to be taken. Since the researcher making up the report is somewhat limited in complete knowledge of operating details of each individual association, it is very helpful if managers of the participating associations can get together to discuss the report. This is done in the case of cooperative cottonseed oil mills.

Careful attention to designing the comparative report plus an active interest on the part of participating associations can result in its being a very useful tool to management.

Through Improved Merchandising

***** Daniel H. McVey

Growers of some of our food and feed grains have the capacity to produce more than we consume with a consequent build up in carryover stocks. Wheat is probably the prime example with 1.3 billion bushels on hand at the beginning of the 1959 harvest. Under these conditions, merchandising becomes more difficult.

Where do cooperatives fit into this picture? And what have they been doing in the way of merchandising?

First, we estimate a million grain producers own around 2,700 local cooperative elevators. These locals own 35 to 40 regional cooperatives which in turn own two super regionals, Producers Export Company and Mid-States Terminals. In addition other local and regional cooperatives, principally farm supply organizations, own elevators and operate grain marketing departments.

Regionals and associations of regionals were organized to further the merchandising efforts of the producer and give him a voice in the market place. The organization of Producers Export last year enables a grain grower in almost any part of the country to sell his grain to the ends of the earth through his own cooperative organizations.

Several regionals have established and are operating milling and baking laboratories in the wheat belt. Through laboratory tests, they know the kind of wheat they have and by blending give the customer the kind of wheat he wants. This practice builds customer confidence which means repeat orders.

Many regionals work closely with crop improvement associations in breeding work and with trade groups in promoting foreign sales.

Farmers Cooperative Company at Dike, Iowa, is an illustration of how local associations have adjusted to modern merchandising needs. This association operated primarily as an elevator from early in this century until 1943 when it installed a soybean mill which was later

enlarged. Three years ago, it began expanding operations by adding a feed mill, a field service man, two bulk feed trucks and began publishing a clever one sheet news letter.

Grain bank operation have spread rapidly in the last year or so and is a method of building volume for the mill and elevator.

Cooperative elevators, local and regional, have been adding drying and aeration equipment at a rapid rate to condition grain for safe storage and maintain quality, for only quality grain will sell without drastic price concessions.

These are a few of the ways in which cooperatives are increasing their sales. Imaginative, aggressive management could do much more than is now being done. And in the years ahead, there must be more aggressive merchandising.

CLOSING COMMENTS

***** Joseph G. Knapp

This has been a most successful workshop -- one of our best. It has displayed a nice blend of seriousness and humor. It has exemplified good teamwork and good research on the part of all participants.

I was, of course, gratified and impressed with the many fine comments bestowed upon FCS by our guest speakers. We need and appreciate the challenge, suggestions and evaluation that comes to us from people outside the Service.

May I commend our Program Committee for developing such a stimulative and informative program. It has made us more cognizant of the fact that the future doesn't come fatalistically -- we help make it.

On behalf of the group, I want to express our appreciation to personnel of the Information Division, the Administrative Management Division and to the Highlights Committee for their contributions to this year's workshop program.

Thank you, one and all, for an excellent workshop.

Participants on the Workshop Program

Visiting Speakers

- | | |
|---------------------|--|
| Allin, Bushrod | - Chairman, Outlook and Situation Board, Agricultural Marketing Service, U.S.D.A., Washington, D. C. |
| Bachman, Kenneth L. | - Interim Executive Secretary of Committee for Rural Development Program, Agricultural Research Service, U.S.D.A., Washington, D. C. |
| Boal, Robert S. | - Marketing Specialist, North Carolina State College, Raleigh, N. C. |
| Brinkley, Homer L. | - Executive Vice-president of National Council of Farmer Cooperatives, Washington, D. C. |
| Butz, Dale | - Director of Research, Illinois Farm Supply Company, Chicago, Illinois |
| Finner, Winn | - Marketing Economics Research Division, Agricultural Marketing Service, U.S.D.A., Washington, D. C. |
| Healy, Patrick B. | - Assistant Secretary, National Milk Producers Federation, Washington, D. C. |
| Heitz, Glenn | - Deputy Governor and Director, Cooperative Bank Service, Farm Credit Administration, Washington, D. C. |
| Hulbert, Lyman S. | - Legal Consultant, American Institute of Cooperation, Washington, D. C. |
| John, M. E. | - Head, Department of Agricultural Economics and Rural Sociology, Pennsylvania State University, University Park, Pennsylvania |
| Leith, W. Gordon | - Director of Economic Research, Consumers Cooperative Association, Kansas City, Missouri |
| Mason, Harold T. | - Deputy Governor, Farm Credit Administration, Washington, D. C. |
| Mischler, Raymond | - Attorney, Office of the General Counsel, U.S.D.A., Washington, D. C. |
| Morse, True D. | - Under Secretary of Agriculture, U.S.D.A., Washington, D. C. |

Nourse, Edwin G.	- Vice Chairman, Joint Council on Economic Education, Washington, D. C.
Scroggs, Claud L.	- Director of Economics Research, Southern States Cooperative, Richmond, Virginia
Smith, Homer G.	- President, Central Bank for Cooperatives, Farm Credit Administration, Washington, D. C.
Stern, J. Kenneth	- President, American Institute of Cooperatives, Washington, D. C.
Stiles, Jerry W.	- Director of Research, Cooperative G.L.F. Exchange, Inc., Ithaca, New York
Trelogan, Harry	- Assistant Administrator, Marketing Research, Agricultural Marketing Service, U.S.D.A., Washington, D. C.
Wells, Oris V.	- Administrator, Agricultural Marketing Service, U.S.D.A., Washington, D. C.
Zahradka, Louis	- General Manager, Falls Cities Cooperative Milk Producers Association, Inc., Louisville, Kentucky

FCS Staff Speakers

Bailey, John M.	- Farm Supplies Branch
Bradford, Henry W.	- Poultry Branch
Byrne, Robert J.	- Transportation Branch
Gessner, Anna L.	- Chief, History and Statistics Branch
Hyre, French M.	- Chief, Farm Services Branch
Knapp, Joseph G.	- Administrator, Farmer Cooperative Service
Markeson, Clyde B.	- Fruit and Vegetable Branch
Mather, Warren J.	- Chief, Farm Supplies Branch
McVey, Daniel H.	- Chief, Grain Branch
Perdue, Elmer J.	- Cotton and Oilseed Branch
Rust, Irwin W.	- Chief, Membership Relations Branch
Savage, Job K.	- Chief, Special Crops Branch
Stevens, Ira M.	- Livestock and Wool Branch
Tucker, George C.	- Dairy Branch
Wilkins, Paul C.	- Frozen Food Locker Branch

